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AUTHOR	Lovejoy, Stephen B.; And Others
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ABSTRACT

Contracting for public services (e.g., social services, administrative functions, maintenance services, and health and security) is an attractive alternative for communities which could potentially undergo the boom/bust cycle of energy development. Typical communities surrounding new or proposed energy development projects (especially in the western United States) have extremely low population densities and often are located considerable distances from a metropolitan center. The labor force for the new development has to migrate into the area, which creates severe dislocations for communities and residents. A community's ability to supply services is influenced by a variety of factors; frequently, in energy development communities, these factors are unknown and changing rapidly. In these circumstances there are at last four potential advantages to private contracting: there is an incentive for entrepreneurial efficiency; local governments can take advantage of economies of specialization and scale; it is often difficult to establish the minimum cost of goods or services provided by the public sector; and there is the potential for increased government responsiveness to public preferences. Many communities are utilizing the private contracting system, but communities considering contracting for service delivery should investigate the details of writing and letting contracts, as well as the means of service evaluation and enforcement. (BRR)

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An Alternative for Boomtowns

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Oregon State University
Corvallis, OR 97331
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Contracting for Public Service Delivery:

An Alternative for Boomtowns

Stephen B. Lovejoy
Ramona Marotz-Baden
John Baden

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February 1982

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The authors are Stephen B. Lovejoy, assistant professor, Departments of Agricultural Economics and Sociology, Purdue University; Ramona Marotz-Baden, associate professor, Department of Home Economics, Montana State University; and John Baden, director, Center for Political Economy and Natural Resources, Montana State University. The authors would like to thank Dr. Russell Youmans and an anonymous reviewer for extremely helpful comments and suggestions on an earlier draft.

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Since the onset of the rise in energy costs in 1973, the U.S. has embarked upon an energy self-sufficiency program. One of the major components of this program is the increased use of coal and other energy resources. Many communities will be affected by such efforts as large-scale coal mining, construction of synthetic fuel and coal conversion plants, and other energy-related projects.

In some communities, residents have been favorably predisposed toward development in light of their stagnant or declining local economies. But in anticipating energy-related projects, local citizens tend to overemphasize economic benefits and to downplay or ignore the costs of development (Lovejoy, 1977). However, as local citizens and leaders experience the actual benefits and costs, they may begin to use the political process to erect barriers against the development of energy resources.

U.S. energy resources will continue to be developed. The question is, under what terms? Methods are needed to achieve a more equitable distribution of the costs and benefits of energy development.

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Costs of Energy Development

The costs associated with energy development are not all monetary and can be categorized under several headings, including capital improvement costs, environmental costs, and cultural costs. Our focus will be upon the public service delivery costs in energy development communities.

Typical communities surrounding new or proposed energy development projects--especially in the western United States--have extremely low population densities, frequently with only a few hundred residents. Often, these communities are located considerable distances from a metropolitan center; therefore, much of the labor force for the new development will have to migrate into the area. This rapid population growth, a major part of the "boomtown" phenomenon, creates severe dislocations for the communities and residents. Such massive growth has serious implications for all cost categories, both monetary and nonmonetary, but especially for the sociocultural and public service delivery costs. Typically, these costs are given less attention in the planning phase of the development process.

A community's ability to supply services is influenced by a variety of factors, such as the rate of population growth, financial constraints, technological options, and the institutional structure for producing or delivering the goods or service. Frequently, however, in energy development communities these factors are unknown and changing rapidly.

Solutions to the problem of energy boomtowns have ranged from lengthening of the construction phase, to centralizing workers for several energy projects in a core community. All solutions--apart from stopping the development of energy resources--will be partial.

The adequate provision of public goods and services is one serious problem area that seems to generate or support other problems. The general quality of life in boomtowns can be enhanced through a more adequate provision of public goods and services.

Population Growth

As new residents move into the community, the provision of housing, roads, and water will have to be increased. Police and fire protection, schools, libraries, medical services, sewage, and recreational facilities will also be in higher demand. However, there are limits as to how rapidly these services can be expanded to meet the needs of residents--both new and old.

Several researchers suggest that most communities can handle an annual population growth rate of 5 percent, but a growth rate of 10 percent or more will cause problems. Many energy development communities face growth rates in excess of 10 percent. In addition, many of the inmigrants are from urban areas and have greater expectations as to the level of public services which will be provided. In general, the quality of life deteriorates for both original residents and newcomers, in part because the service sector fails to meet the needs of the growing community.

Public Services: The Right Kind

A local government's ability (or inability) to provide adequate public services is often evaluated by three major criteria: efficiency, responsiveness, and effectiveness. Efficiency can be measured by answering the question: will the technology and institutional structure being used provide the service at the lowest unit cost? If the desired outcome is achieved, then a local government can be considered effective. Responsiveness is the ability of the local government to deliver public services in response to changes in public demand. These three factors are important considerations in any evaluation of public service delivery.

The local government may be hampered in its efforts to expand the provision of public goods and services by a variety of factors. Included are the existing reward structure (Niskanen, 1971); the division of public services into several agencies and organizations (Jones and Murdock, 1978); and the lack of time and money for both planning and implementation. Time is a particularly binding constraint to the boomtown government, since the rate of growth is so rapid and the leadership has limited experience. And a trial-and-error method of service expansion can contribute to the problems of boomtown life.

Revenues necessary to pay for more services are also affected by time constraints. Local governments depend primarily on property taxes and revenue-sharing to fund services. Both sources are likely to lag behind--perhaps several years behind--increases in the need for services, because new developments generally are not taxed until after the construction is completed, and revenue sharing is based upon previous population figures. In addition, much of the increased revenue might go to the county, while increased costs must be absorbed by the local town or city (see Bender and others, 1980).

As another example of revenue constraints, mobile home residents demand similar services as do residents in permanent homes, but their property taxes are much lower. The operating costs of local governments are likely to be further increased, since higher wages will be necessary to attract and retain public employees in a boomtown situation.

The Contracting Alternative

Public services may be produced by contracting to private firms for the "public" goods and services for residents. For example, no local government would try to build its own police cars. Market production can offer distinct advantages in some cases (Ostrom and Ostrom, 1976). Some examples of public services that have been provided by private contractors follow (see Poole, 1980).

Social Services
children's protective services
daycare
family counseling
halfway houses
homemaker services
institutional care
meals-on-wheels
vocational rehabilitation

Administrative Functions
building code inspection
data processing
election administration
land-use planning
payroll
records maintenance
tax assessment
tax collection
utility billing
voter registration

Maintenance Services
airport maintenance
bridge maintenance
building maintenance
bus shelter maintenance
park maintenance
street and road maintenance
street sign maintenance
vehicle maintenance

Health and Security
hospitals
ambulance service
outpatient care
public nursing care
fire protection
police
adjudication

Other
water supply
garbage collection
recycling
solid waste landfill
wastewater treatment
education
libraries
mass transit
museums

A local government can be thought of as a collective consumption unit, as well as a collective production unit. The collective consumption unit is the government as it consumes already produced goods and services by parceling them out to residents. Viewed this way, government is merely a means for reflecting the demand of its citizens. The collective production unit is the actual production machinery--such as the police department, the schools, and the public utilities department--which is collectively owned.

Advantages

The private contracting proposition offers the collective consumption unit a choice between public production and all possible private producers of goods and services. The advantages offered by private contracting flow from this increased set of choices. There are at least four potential advantages to private contracting.

First is the incentive for entrepreneurial efficiency. The private producer is directly rewarded for efficient production. Inefficiencies such as overmanning, underpaying, and overworking are often associated with agency production and represent significant opportunities for community savings.

Second, local governments can take advantage of economies of specialization and scale. An existing small town government is unlikely to have the resources to develop expertise in all the production processes it requires. This becomes particularly troublesome when rapid expansion of service delivery is necessary. Private firms have already made the necessary investments in expertise and could step in immediately. Such economies of specialization are coupled with economies of scale, where some large production units have lower costs. If a service exhibits such tendencies, a private firm with contracts from several communities would have lower unit costs than would single local governments.

Third, it is often difficult to establish the minimum cost of a good or service provided by the public sector. This is due, in part, to the nature of public goods (indivisibility and existence of externalities). On the other hand, when contracting for the provision of public goods and services to private entrepreneurs or even other governmental units, costs are explicit in the contract price. If alternative suppliers have a potential bid in excess of a minimum cost, they could be underbid by other potential suppliers, and importantly, other suppliers would have the incentive to provide the local government with this type of cost information.

Fourth, there is the potential for increased government responsiveness to public preferences. As public requirements and preferences change--which will surely be the case in energy boomtowns--bureaucratic inertia in public service departments becomes a significant obstacle to change. Current employees are likely to resist adaptations which might cause increased job competition or retraining costs. Under the contracting scheme, elected officials need only change contract specifications rather than attempt to change an entrenched bureaucracy of civil servants. The voting pressure on elected officials is likely to result in service levels to meet local demand, as contracting can accommodate more adjustments to the quality of services offered.

Purchase-of-services schemes have been implemented very successfully in many communities throughout the nation. Many California communities are contracting with private entrepreneurs or other governmental units for services ranging from police protection to education. A municipality contracting with a private water company is quite common in many areas of the U.S. Communities also have purchased emergency ambulance service, mass transit, tax collection, and libraries.

The savings associated with contracting have ranged from 10 percent for tree trimming, to 33 percent for data processing, to 40 percent for solid waste collection, to 50 percent for fire protection. While savings vary from community to community, many have benefited from contracting for public services. For instance, the Rural/Metro Fire Development Company provides the city of Scottsdale, Arizona, with fire protection judged equal in quality, but at half the cost of similar services provided by local public producers (Ahlbrandt, 1973).

Collection of solid waste is an area in which there is extensive contracting and franchising. In one study, municipal collection was found to cost twice as much per ton as private haulers cost(Savas, 1974). In another area, residents of one community were getting twice-a-week curbside pickup by their municipality for $200 per year, while residents of a nearby, comparable community were getting back-of-house pickup three times a week for $70 per year from a private contractor (Savas, 1974).

Studies of actual contracting experience with private entrepreneurs or other units of government have brought to light several advantages over traditional practices. First, the process of considering, reviewing, and letting contracts forces local officials to develop better information on both costs and outputs. Second, it introduces a competitive element into the production of the public service, since the purchaser has the option to seek alternative suppliers or produce the service itself. Third, contracting does not force producers and local governments to be organized with reference to the same geographical boundaries (Bish and Ostrom, 1973).

Although many established communities are successfully contracting for public services, this system seems especially applicable to boomtowns.

Public bureaucracies have not yet been established, so the painful process of decentralization would not be necessary. Increased efficiencies of private interests would allow faster responses to rapid increases and decreases in population. Lower costs due to increased efficiencies would allow for delivery of a higher quantity and/or quality of the desired goods and services.

Potential Problems

When contracting for production of services, problems will arise with monitoring the contractor, as well as with assessing the quality of the service provided. Determining appropriate criteria for the selection of a contractor--such as least cost versus reliability--may also be difficult. Potential conflicts within the community over selection of a contractor may be reduced by explicit specification of criteria. Another potential problem is graft and corruption. Appropriate monitoring mechanisms and an open competitive bidding procedure must be established to keep contracting from becoming a form of political corruption.

There are many potential problems associated with contracting, as there are with governmental provision of services. However, these problems are not insurmountable.

Summary

There are no cost-free solutions to the provision of public services in rapidly growing communities. Rather, communities can benefit from choosing among alternatives for the most efficient and effective way of providing services. If contracting for public services can improve the quality of life for residents by providing equal quality and quantity of services at a lower price, it should be endorsed and adopted.

For many, the idea of local communities contracting with private businesses or a neighboring community for public goods and services may seem unusual or even threatening. However, a contracting scheme holds promise for increasing the quality of life in boomtown communities associated with increased energy production.

Contracting for services is an attractive alternative for communities who potentially could undergo the boom/bust cycle of energy development. Many communities are utilizing the private contracting system in order to realize the benefits of better cost information, alternative suppliers, and flexibility of service areas. The advantages--especially for communities which will boom and bust--seem certain to lead to greater reliance on this method. However, communities considering contracting for service delivery should investigate the details of writing and letting contracts, as well as the means of service evaluation and enforcement.

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